

Hearing Date: April 14, 2010 at 10:00 a.m.

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**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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In re:	:	Chapter 11 Case No.
	:	
LEHMAN BROTHERS HOLDINGS INC., <u>et al.</u> ,	:	08-13555 (JMP)
	:	
Debtors.	:	(Jointly Administered)
	:	
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**STATEMENT OF OFFICIAL COMMITTEE OF
UNSECURED CREDITORS IN SUPPORT OF DEBTORS' MOTION,
PURSUANT TO FEDERAL RULE OF BANKRUPTCY PROCEDURE 9019,
FOR AUTHORIZATION AND APPROVAL OF CERTAIN
SETTLEMENTS WITH THE INTERNAL REVENUE SERVICE**

The Official Committee of Unsecured Creditors (the "Committee") appointed in the chapter 11 cases (the "Chapter 11 Cases") of Lehman Brothers Holdings Inc. ("LBHI") and each of its affiliated debtors in possession (collectively, the "Debtors"), hereby files this statement in support of the Debtors' motion, dated March 23, 2010 [Docket No. 7734] (the "Motion"), pursuant to Rule 9019 of the Federal Rules of Bankruptcy Procedure, seeking entry of an order approving certain settlements between LBHI (as agent for the consolidated federal income tax group of which LBHI is the parent) and the Internal Revenue Service (the "IRS").

STATEMENT

1. As described in the Motion, under the federal income tax law, LBHI, as the parent of its domestic subsidiaries with which LBHI files a consolidated federal income tax return (the “LBHI Tax Group”), acts as agent of the group with respect to dealings with the IRS. The LBHI Tax Group has disputes with the IRS regarding the proper tax treatment of certain items arising in the LBHI Tax Group’s 1997 through 2008 tax years.

2. As further described in the Motion, prior to LBHI’s bankruptcy filing, the IRS proposed various adjustments to the LBHI Tax Group’s United States federal consolidated income tax returns for the 1997 through 2000 tax years. Those adjustments concern the treatment of eight disputed issues. Three of the issues (the “Primary Issues”) each involve more than \$100 million in disputed taxes, penalties, and interest for the 1997 through 2000 tax years. The other five issues (the “Secondary Issues”) each involve less than \$20 million in disputed taxes and interest for the 1997 through 2000 tax years.

3. In June 2008, in order to procedurally position LBHI to litigate the unsettled Primary Issues and Secondary Issues, LBHI consented to the IRS’s adjustments for these issues, paid \$374,094,530 in disputed taxes and penalties, and \$227,485,477 in deficiency interest, and reserved its right to seek a refund for the taxes, penalties, and interest paid.

4. The Committee’s advisors have had numerous meetings with LBHI’s tax professionals and LBHI’s tax controversy counsel, Bingham McCutchen LLP (“Bingham”), regarding the facts, circumstances, merits and litigation risks of the Primary Issues. In addition, the Committee’s advisors were provided with certain of LBHI’s written submissions to the IRS describing LBHI’s substantive arguments in support of the LBHI Tax Group’s positions on the

Primary Issues. LBHI also provided the Committee's advisors with certain of the IRS's written responses.

5. The Tax Subcommittee¹ expended considerable time and effort working with the Committee's advisors to evaluate the merits of the LBHI Tax Group's positions with respect to the Primary Issues and the risks associated with litigating those issues.

Prior to engaging in settlement discussions with the IRS on the Primary Issues, LBHI and Bingham sought the Committee's input regarding appropriate settlement ranges. Based on the LBHI and Bingham briefings, and Committee counsel's review of LBHI's and the IRS's written submissions, the Committee approved of the prospective settlement ranges proposed by the Debtors for the Primary Issues. After each of the two times LBHI and the IRS reached a settlement respecting a Primary Issue, the Committee approved the settlement.

6. The proposed settlements do not address the allocation among the members of the LBHI Tax Group of either (i) the responsibility to pay taxes, interest and penalties owed by the LBHI Tax Group, or (ii) the right to refunds of taxes paid by the LBHI Tax Group. The Committee expects to participate in any determination of these allocation issues at the appropriate time.

7. In light of the uncertain legal questions and factual complexities surrounding both the Primary and the Secondary Issued settled by the Debtors, and because of the risks and expenses anticipated in litigating each of these issues, the Committee believes that the proposed settlements are fair and reasonable, and in the best interests of the estates and their creditors.

¹ The Committee formed a special subcommittee (the "Tax Subcommittee") to address the Debtors' tax matters, including those that are the subject of the Motion.

CONCLUSION

8. For the foregoing reasons, the Committee respectfully requests that the Court grant (a) the Motion, and (b) such other relief in connection with the Motion as the Court deems just.

Dated: New York, New York
April 12, 2010

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